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NEW HORIZONS, INC.
SHREVEPORT, LOUISIANA
SEPTEMBER 30, 2002 AND 2001

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/30/03

NEW HORIZONS, INC.
SHREVEPORT, LOUISIANA

TABLE OF CONTENTS

AUDITED FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8

OTHER REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	9-10
Schedule of Findings and Questioned Costs	11-13
Schedule of Prior Year Findings	14-15
Corrective Action Plan for Management Letter Comments	16

AUDITED FINANCIAL STATEMENTS

**HEARD
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& VESTAL**
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WILLIAM L. HIGHTOWER, CPA

May 13, 2003

To the Board of Directors
New Horizons, Inc.
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying statements of financial position of New Horizons, Inc. (a nonprofit organization) as of September 30, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Horizons, Inc. as of September 30, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 13, 2003, on our consideration of New Horizons, Inc.'s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of our audits.

Heard, McElroy & Vestal, LLP

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NEW HORIZONS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2002 AND 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
<u>Current assets:</u>		
Cash (Note 2)	7,312	18,447
Grant receivables (Note 3)	<u>199,901</u>	<u>163,321</u>
Total current assets	207,213	181,768
 <u>Property and equipment:</u> (Notes 4 and 8)		
Property and equipment	46,250	173,750
Accumulated depreciation	<u>(41,410)</u>	<u>(51,301)</u>
Net property and equipment	4,840	122,449
 <u>Other assets:</u>		
Deposits	<u>4,173</u>	<u>-</u>
 Total assets	<u>216,226</u>	<u>304,217</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities:</u>		
Accounts payable	74,925	9,604
Accrued liabilities (Note 7)	192,521	179,140
Line of credit (Note 8)	<u>-</u>	<u>107,600</u>
Total current liabilities	267,446	296,344
 <u>Net assets:</u>		
Unrestricted:		
Operating (deficit)	(56,060)	(114,576)
Fixed assets	<u>4,840</u>	<u>122,449</u>
 Total net assets (deficit)	<u>(51,220)</u>	<u>7,873</u>
 Total liabilities and net assets	<u>216,226</u>	<u>304,217</u>

The accompanying notes are an integral part of the financial statements.

NEW HORIZONS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Revenues and other support:</u>		
Contractual revenue-grants (Note 5)	917,018	956,789
Medicaid contract (Note 5)	588,346	610,326
Gain on sale of property (Note 4)	16,316	-
Miscellaneous revenues	<u>3,665</u>	<u>44,687</u>
Total revenues and other support	1,525,345	1,611,802
<u>Expenses:</u>		
Medicaid	586,977	556,559
Traumatic head and spinal cord injury	252,619	373,107
Title VII Part C	177,037	160,581
Rural independent living	98,619	98,507
LRS-Personal Care Assistance	80,826	114,594
Deaf Action Center	4,404	36,334
Durable Medical Equipment	82,571	-
Personal Care Assistance Program	37,338	34,301
Title VII Part B	28,200	25,777
Office for Citizens with Developmental Disabilities	73,236	47,500
Supported living	109,324	108,004
General administration and other	<u>53,287</u>	<u>133,645</u>
Total expenses	<u>1,584,438</u>	<u>1,688,909</u>
<u>Change in net assets</u>	(59,093)	(77,107)
<u>Net assets, beginning of year</u>	<u>7,873</u>	<u>84,980</u>
<u>Net assets (deficit), end of year</u>	<u>(51,220)</u>	<u>7,873</u>

The accompanying notes are an integral part of the financial statements.

NEW HORIZONS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	(59,093)	(77,107)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	7,406	9,639
(Gain) on sale of property	(16,316)	-
(Increase) decrease in operating assets:		
Grant receivables	(36,580)	(47,198)
Deposits	(4,173)	-
Increase (decrease) in operating liabilities:		
Accounts payable	65,321	6,075
Accrued liabilities	13,381	148,669
Other liabilities	-	(1,685)
Net cash provided (used) by operating activities	(30,054)	38,393
<u>Cash flows from investing activities:</u>		
Proceeds from sale of property and equipment, net	<u>126,519</u>	<u>1,799</u>
Net cash provided by investing activities	126,519	1,799
<u>Cash flows from financing activities:</u>		
Draws (payments) on line of credit, net	(107,600)	17,600
Payments on bank overdrafts	<u>-</u>	<u>(41,257)</u>
Net cash (used) by financing activities	<u>(107,600)</u>	<u>(23,657)</u>
<u>Net increase (decrease) in cash</u>	(11,135)	16,535
<u>Cash at beginning of year</u>	<u>18,447</u>	<u>1,912</u>
<u>Cash at end of year</u>	<u><u>7,312</u></u>	<u><u>18,447</u></u>

Interest paid during the years ended September 30, 2002 and 2001 was \$4,904 and \$13,386, respectively.

The accompanying notes are an integral part of the financial statements.

NEW HORIZONS, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002 AND 2001

1. Summary of Significant Accounting Policies

A. Nature of Activities

New Horizons, Inc. (New Horizons), is a nonprofit corporation under the laws of the State of Louisiana. New Horizons was established to provide an opportunity for severely handicapped persons to participate in a broad activities program, including community activities, recreation, and other services, to make possible a broader life enrichment program for handicapped persons. The following programs are administered by New Horizons, shown with their approximate percentages of total revenue:

Medicaid – 39%
Traumatic head and spinal cord injury – 11%
Title VII Part C – 12%
Rural Independent Living – 6%
LRS – Personal Care Assistance – 9%
Personal Care Assistance Program – 2%
Title VII Part B – 2%
Office for Citizens with Development Disabilities – 5%
Supported Living – 7%
General Administration – 1%
Other – 1%
Durable Medical Equipment – 5%

B. Basis of Accounting

The financial statements of New Horizons have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. Income Tax Status

New Horizons is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Services as an organization other than a private foundation. New Horizons, therefore, is not subject to income taxes. However, income from certain activities not directly related to New Horizon's tax-exempt purpose is subject to taxation as unrelated business income. New Horizons had no such income for the years ended September 30, 2002 and 2001.

1. Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

New Horizon's cash, as stated for cash flow purposes, consists of interest-bearing and noninterest bearing bank accounts. New Horizons has no other assets that are considered cash equivalents.

G. Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The State of Louisiana and the federal government have a reversionary interest in property purchased with state and federal funds. Its disposition as well as the ownership of any proceeds therefrom is subject to state and federal regulations. All expenditures in excess of \$250 for property and equipment are capitalized.

H. Revenue and Support

Contributions received may be recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contractual grant revenue is reported as unrestricted support due to the restrictions placed on those funds by the funding sources being met in the same reporting period as the revenue is earned.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

I. Retirement Obligations

The employees of New Horizons are members of the Social Security System. There are no other retirement plans available through New Horizons.

J. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

1. Summary of Significant Accounting Policies (Continued)

K. Compensated Absences

Annual leave is earned by employees as follows:

<u>Length of Service</u>	<u>Annual Leave Earned</u>
One year	One week
Over one year	Two weeks

Generally, unused annual leave may be carried over to the next fiscal year.

Sick leave is earned at the rate of one day per calendar month of employment, and accumulates up to twelve days. Employees are not compensated for unused sick leave at termination.

2. Concentrations of Credit Risk

Financial instruments that potentially subject New Horizons to concentrations of credit risk consist principally of temporary cash investments and grant receivables. Concentrations of credit risk with respect to grant receivables are limited due to these amounts being due from governmental agencies under contractual terms. As of September 30, 2002 and 2001, New Horizons had no significant concentrations of credit risk in relation to grant receivables. New Horizons maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2002 and 2001, there were no uninsured balances at these institutions.

3. Grant Receivables

Various funding sources provide reimbursement of allowable costs and payment on units of service in connection with providing services under contracts or agreements. This balance represents amounts due from funding sources at September 30, 2002 and 2001, but received after those dates.

4. Property and Equipment

Property and equipment consisted of the following at September 30, 2002 and 2001:

	<u>Estimated Depreciable Life</u>	<u>2002</u>	<u>2001</u>
Furniture and equipment	5 - 7 years	46,250	46,250
Buildings	20 - 30 years	-	127,500
Accumulated depreciation		<u>(41,410)</u>	<u>(51,301)</u>
Net investment in property and equipment		<u>4,840</u>	<u>122,449</u>

New Horizons sold its building in July 2002 for \$126,519, and began leasing space for its main office. Such building had a book value of \$110,203, resulting in a gain of \$16,316.

Depreciation expense for the years ended September 30, 2002 and 2001 was \$7,406 and \$9,639, respectively.

5. Contractual Revenue – Grants and Medicaid

During the years ended September 30, 2002 and 2001, New Horizons received contractual revenue from federal and state grants in the amount of \$1,505,364 and \$1,567,115, respectively. The continued existence of these funds is based on annual contract renewals with various funding sources. All revenue from these grants is subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries; adjustments in future periods may be necessary as final grant settlements are determined.

6. Leases

New Horizons leases space and equipment under several operating leases. Rental costs on those leases for the years ended September 30, 2002 and 2001 were \$26,000 and \$23,000, respectively. Commitments under lease agreements having initial or remaining noncancelable terms in excess of one year as of September 30, 2002 are as follows:

September 30, 2003	61,580
September 30, 2004	50,080
September 30, 2005	50,080
September 30, 2006	50,080
September 30, 2007	<u>45,907</u>
Total	<u>257,727</u>

7. Accrued Liabilities

Accrued liabilities at September 30, 2002 and 2001 consisted of the following:

	<u>2002</u>	<u>2001</u>
Accrued payroll	34,662	30,835
Accrued leave	11,490	10,990
Payroll taxes payable	<u>146,369</u>	<u>137,315</u>
	<u>192,521</u>	<u>179,140</u>

8. Line of Credit

New Horizons maintained a \$115,000 revolving line of credit. Bank advances on the credit line were payable on demand and carried an interest rate ranging from 5.75% to 7.50%. The credit line was secured by real estate of New Horizons, and was repaid from the proceeds of the sale of property in July 2002, and subsequently canceled.

The Organization maintains another credit line for up to \$10,000. There were no borrowings on this line as of and for the year ended September 30, 2002.

9. Conditional Promises

Conditional promises consist of the unfunded portions of approved governmental awards, either currently in effect or approved for commencement after September 30, 2002. Future funding of such awards is conditioned upon New Horizon's operation of certain programs, incurrence of certain costs, and possibly meeting certain matching requirements. Because such awards represent conditional promises to New Horizons, they have not been recognized in the financial statements at September 30, 2002. Such conditional promises amounted to approximately \$1,624,000 at September 30, 2002.

OTHER REPORTS

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May 13, 2003

To the Board of Directors
New Horizons, Inc.
Shreveport, Louisiana

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

We have audited the financial statements of New Horizons, Inc. as of and for the year ended September 30, 2002, and have issued our report thereon dated May 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of New Horizons, Inc. are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2002-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Horizons, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect New Horizons, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-02 through 2002-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all

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reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider items 2002-02 and 2002-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of New Horizons, Inc. in a separate management letter dated May 13, 2003.

This report is intended solely for the information and use of management, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLP

NEW HORIZONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of New Horizons, Inc.
2. Five reportable conditions are reported; two are material weaknesses.
3. One instance of noncompliance material to the financial statements of New Horizons, Inc. was disclosed during the audit.
4. New Horizons, Inc. was not subject to a Single Audit under the provisions of OMB Circular A-133 for the year ended September 30, 2002.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2002-01 – Compliance Finding

Statement of Condition: New Horizons, Inc. did not submit its audit report for the year ended September 30, 2002 within six months of its year end as required by state law.

Criteria: Louisiana state law requires auditees to submit their audit reports within six months after their fiscal year end.

Effect of Condition: The agency was not in compliance with state law.

Recommendation: We recommend that agency take necessary steps to ensure audit is submitted timely in the future.

Response: New Horizons, Inc. submitted its audit report for the prior year, September 30, 2001, on March 31, 2003, which date was already past the six month deadline for the 2002 report. As stated in response to this finding in our 2001 audit, we will begin preparing for our annual audit on October 1st of each year. We will be in contact with our independent auditor to set up times to perform fieldwork, and will take more responsibility in making sure that all information is given to our independent auditor in a timely manner so that the audit can be completed within the six months deadline.

2002-02 – Reportable Condition – Material Weakness

Statement of Condition: During our testing of twenty-five expenditures, we noted that five were not supported with approved purchase orders.

Criteria: The Organization's policies and procedures require an approved purchase order for all purchases before the transaction is entered into.

Effect of Condition: Because of the lack of prior approval through an executed purchase order, New Horizons may be obligated to pay for acquisitions it does not need or could obtain at a lower price.

Recommendation: We recommend that New Horizons implement sufficient controls to afford reasonable assurance that its policy for purchases is complied with.

Response: We agree with this recommendation, and will provide the supervisory review necessary to prevent purchase transactions from being entered into unless an approved purchase order has been executed.

2002-03 – Reportable Condition – Material Weakness

Statement of Condition: Our testing of the organization's contributions bank account revealed seven checks, totaling \$1,690, that had no invoice support, nor support indicating a business purpose. In addition, these checks were signed only by the executive director.

Criteria: Each disbursement made by the organization should include invoice support and other documentation sufficient to establish the nature and business purpose of the transaction. In addition, the organization's policies and procedures require each check written on the agency's account to have two authorized signatures.

Effect of Condition: Because of the lack of documentation establishing a business purpose, and the lack of the required number of authorized check signers, New Horizons may be paying for expenses for which it receives no benefit.

Recommendation: We recommend that New Horizons adopt a procedure to ensure that all checking accounts are subject to uniform controls that require proper invoice and documentary support of each check before it is signed, and that each check is signed by two authorized individuals before being mailed to the vendor.

Response: We concur with this recommendation, and will implement the procedures necessary to reasonably assure adequate documentary support for each check, and dual authorized signatures for each check.

2002-04 – Reportable Condition

Statement of Condition: Our testing of cash disbursements revealed five procurement transactions where New Horizons could not provide documentation of any competitive price quotations from independent vendors for each procurement.

Criteria: The Organization's policies and procedures require that procurements having expected unit prices from \$1,000 to \$2,000 be substantiated by a minimum of three vendor price quotations.

Effect of Condition: Because no price quotations were received in preparation for the procurement transactions, New Horizons has no reasonable assurance that it is paying the lowest price for the goods.

Recommendation: We recommend that the individual responsible for approving purchase orders also determine that the proposed purchase conform with New Horizon's policy on obtaining vendor price quotations. Implicit in this recommendation is the requirement that satisfactory written evidence of the price quotations be available, and retained in an orderly manner in the Organization's files.

Response: We agree with this recommendation, and will implement such a procedure.

2002-05 – Reportable Condition

Statement of Condition: New Horizons neglected to make deposits of both employer and withheld employee payroll taxes a majority of the fiscal year.

Criteria: Both employer and withheld employee payroll tax liabilities must be deposited with the Internal Revenue Service within certain due dates it prescribes. Nonpayment subjects New Horizons to substantial interest and penalties, and potential civil or criminal prosecution.

Effect of Condition: Lack of timely deposit of these payroll taxes has resulted in an additional liability to the Internal Revenue Service of \$3,333 at September 30, 2002.

Recommendation: New Horizons should monitor the withholding of its payroll taxes, and determine that these taxes are being timely deposited with the taxing authorities.

Response: When we discovered the nonpayment of these payroll taxes during the year, we contacted our tax professional, who helped us keep our current payroll tax deposits timely, and worked with the IRS in establishing payments for the back taxes, penalties, and interest that were owed. New Horizons is current with its payment plan, and has set up a process to monitor its payroll tax deposits for timeliness.

2002-06 – Reportable Condition

Statement of Condition: As noted on the Statement of Financial Position, the agency's operating net assets show a deficit of (\$56,060) at September 30, 2002.

Criteria: Internal controls should be in place to provide for a monitoring of the agency's financial position on a monthly basis.

Effect of Condition: The agency's financial position continues to show a deficit in operating net assets.

Recommendation: We recommend that management and the Board of Directors meet on a monthly basis to monitor the agency's financial position and to formulate financial plans to eliminate the deficits.

Response: The management and the board of directors meet on a monthly basis to monitor our financial position. The directors of administration and executive director are available to answer all questions posed by the board. The board is continuing to meet on a monthly basis to formulate financial plans to attempt to eliminate the deficit in the operating net assets.

NEW HORIZONS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

The prior year findings and questioned costs for the audit period ended September 30, 2001 are addressed below:

2001-01: Untimely Submission of Audit Report to Louisiana Legislative Auditor.

See compliance finding in current year audit.

2001-02: Lack of Approved Cost Allocation Plan.

Cleared.

2001-03: Lack of Reconciliation of Billings to Subsequent Receipts.

Cleared.

2001-04: Lack of Reconciliation of Payables to Subsequent Payments.

Cleared.

2001-05: Deficit in Operating Net Assets.

See reportable condition in current year audit.

The prior year management letter comments for the year ended September 30, 2001 are addressed below:

Comment #1: Fixed Asset Inventory

Cleared.

Comment #2: Payroll Tax Reports

Cleared.

Comment #3: Inadequate Supporting Documents

See management letter comment in current year audit.

Comment #4: Payroll Taxes

See reportable condition in current year audit.

Comment #5: Employee Expense Reimbursement

See management letter comment concerning inadequate supporting documents in the current year audit.

NEW HORIZONS, INC.

CORRECTIVE ACTION PLAN FOR MANAGEMENT LETTER COMMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2002

(1) Conflict of Interest Policy

The Board of New Horizons will consider adoption of such a policy.

(2) Held Checks

Checks will not be prepared until they are ready to be issued to the vendor.

(3) Cost Allocations

All disbursement account codings will be reviewed against the current cost allocation to determine that costs are appropriately charged.

(4) Inadequate Supporting Documents

All disbursements will include the necessary documentary support when presented to the check signers. Such support will be attached to, and filed with, the check copies in an orderly fashion.

(5) Lack of Support for Billings

Copies of all billings to grantors, including all supporting documents, will be retained in an orderly manner by New Horizons in its billing files.

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May 13, 2003

To the Board of Directors
New Horizons, Inc.
Bossier City, Louisiana

We have audited the financial statements of New Horizons, Inc. (New Horizons), for the year ended September 30, 2002, and have issued our report thereon dated May 13, 2003. In planning and performing our audit of the financial statements of New Horizons, Inc., we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

During our audit, certain matters were noted involving internal controls over financial reporting and other operational matters which appear to merit your attention for consideration to improve the internal control or operations of New Horizons. These comments have been discussed with the appropriate members of management.

(1) CONFLICT OF INTEREST POLICY

We noted during our review of certain policies set by the Board of Directors of New Horizons that there is no policy dealing with Conflicts of Interest. Such a policy would define those relationships (usually financial) between New Horizons and its board members that can cause conflicts and potentially result in inappropriate financial transactions. The policy should provide for signed, annual statements from board members that disclose interests that could cause potential conflicts.

(2) HELD CHECKS

We noted during our audit that New Horizons prepared six checks on September 30, 2002 that totaled \$52,894, but, due to lack of funds, did not issue the checks until February 2003. We recommend that management not prepare checks until they are to be issued, and record such amounts due as accounts payable.

(3) COST ALLOCATION

During our testing of disbursement transactions, we noted three instances where the expenses were not allocated in accordance with the approved cost allocation schedule. We strongly

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recommend that New Horizons implement a review procedure of disbursement account codings to help ensure that all allocated costs are charged according to the approved cost allocation schedule.

(4) INADEQUATE SUPPORTING DOCUMENTS

During our testing of certain expenses and cash disbursements, we noted three checks that had either partial or no invoice support. We recommend that checks be issued only from original vendor invoices which have been given proper supervisory approval, and that the Organization retain all supporting invoices in an orderly manner.

(5) LACK OF SUPPORT FOR BILLINGS

During our testing of grant revenue, we noted three billings under the PCA grant and one billing under the Independent Living grant where New Horizons could not produce support for those billings. Such support accompanies the billing to the grantor, and, in all cases, we noted payment was received from the grantor. Nevertheless, all billing documentation should be retained by New Horizons in its billing files.

Heard, McGray & Ventral, LLP